

# REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MASILONYANA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the accompanying financial statements of the Masilonyana Local Municipality (municipality) which comprise the balance sheet as at 30 June 2008, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

### Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

### Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126 of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis of accounting

4. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting as set out in accounting policy note 1.

### Basis for disclaimer of opinion

#### Cash and bank

5. Supporting documentation for journals totalling R57 341 049 (2007: R5 223 709) could not be submitted to audit. The records of the municipality also did not permit me to perform reasonable alternative procedures in respect of these transactions.
6. The bank overdraft as disclosed in the balance sheet and note 22 to the financial statements is understated by R477 062 when compared to the bank reconciliation. Bank reconciliations were not performed timeously after month-end to ensure the accuracy and completeness of the accounting records and I was unable to obtain sufficient appropriate audit evidence in respect of the identified difference. I was thus unable to consider the possible effect of the understatement on the financial statements.

## Fixed assets

7. For the reasons as detailed below I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness and valuation of fixed assets to the value of R254 770 854 (2007: R168 474 992) and the municipalities rights to these fixed assets as disclosed in the balance sheet and note 6 to the financial statements.
  - (a) Management did not perform a fixed asset count at year-end and the fixed asset records of the municipality did not contain sufficient appropriate information to allow me as an alternative to identify and physically confirm individual fixed asset items.
  - (b) An unexplained difference of R3 562 624 (2007: R676 459) was found between the net assets and the long-term liabilities outstanding. According to IMFO standards all assets should be written-off in the year in which purchased or in line with the repayment of the finance utilised to procure the asset.
  - (c) No supporting documentation could be provided for debit journals totalling R15 704 360 processed against sanitation and refuse during the year. The financial systems did not make provision for alternative procedures to verify these amounts.
  - (d) Gross assets were overstated by R621 997 due to items capitalised that did not meet the definition of an asset.

## Income

### Assessment rates

8. For the reasons as detailed below I was unable to obtain sufficient appropriate audit evidence as to the completeness and accuracy of assessment rate income to the value of R11 259 388 (2007: R9 250 946) as disclosed in the income statement and note 13 to the financial statements:
  - (a) Management did not reconcile the official valuation roll to the information captured on the financial accounting system.
  - (b) Properties were identified that were not included in the valuation roll. Rates were not levied on certain properties and cases were found where incorrect amounts were levied on consumers. The total impact could not be determined.
  - (c) Although the municipality's rateable properties had been valued, the valuation roll was not implemented. In some instances the valuation performed as far back as 1996 was still being used. Regular interim valuations were not done and updated on the valuation roll. This resulted in the understatement of income and debtors by an unknown amount. The financial systems did not make provision for alternative procedures to determine the understatement.

### Service levies

9. I was unable to obtain sufficient appropriate audit evidence in respect of un-metered consumption at year-end due to the fact that the dates of the final meter readings were not recorded. Income and the trade debtors are thus misstated by an unknown amount.
10. Journals were processed to record the total subsidy for free basic services, but management was not able to substantiate the information it used in the calculations. I was thus unable to obtain sufficient and appropriate audit evidence as to the accuracy of the journal entries that amounted to R3 022 352 (2007: R2,9 million) processed against revenue and equitable share. The municipalities' records also did not permit me to perform reasonable alternative procedures.
11. A journal was processed for R2 million between electricity and general Income with the purpose of ensuring that the electricity services do not disclose a financial loss for the year under review. I was unable to obtain sufficient appropriate audit evidence as to the occurrence and accuracy of this transaction and was thus unable to consider the effect that the transaction has on the financial statements. The municipalities' records also did not permit me to perform reasonable alternative procedures.

#### Other income

12. For the reasons as detailed below I was unable to obtain sufficient appropriate audit evidence as to the occurrence, completeness and accuracy of community services income to the value of R43 046 395 as included in the income statement.
- (a) I could not be provided with lease agreements in respect of rental received amounting to R86 416 (2007: R86 740) and alternative procedures performed also indicated that the municipality did not receive at least 12 payments in respect of these contracts. This was also reported on in paragraph 15(c) of the previous audit report.
  - (b) I could not be provided with sufficient appropriate audit evidence in support of income received from traffic fines totalling R147 920 (2007: R62 685) and the financial systems of the municipality did not permit me to perform reasonable alternative procedures in respect of this income.
  - (c) I could not be provided with sufficient appropriate audit evidence in respect of a credit journal entries totalling R1,3 million processed to direct income accounts and the financial systems of the municipality did not permit me to perform reasonable alternative procedures in respect these income transactions.
  - (d) Section 64(2)(g) of the MFMA prescribes that the accounting officer of a municipality should charge interest on arrear debtors, except where the council has granted exemptions in accordance with its budget related policies and within the prescribed framework. Contrary to the prescripts of the act no interest was levied on overdue service debtors with year end balances of R28 025 723 and sundry debtors of R2 537 864 at year-end. The interest that should have been levied in respect of these arrear debtors is estimated to amount to R4 584 538 and resulted in the understatement of both debtors and revenue by the calculated amount.

#### Grants income

13. According to the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA) municipal infrastructure grants amounting to R87,1 million (2007: R 39,7 million) were allocated to the municipality for the year, but only an amount of R80,1 million (2007: R27,1 million) was recorded in the accounting records. I could not be provided with sufficient appropriate audit evidence or explanations for the difference of R7 million (2007: R12,6 million) and the financial systems of the municipality did not permit me to perform reasonable alternative procedures in respect of these income transactions.

#### Receipting of money

14. Various deficiencies were found with regard to the receipting of money during the period under review which placed a serious limitation on the scope of my audit. The accounting system did not make provision for the execution of alternative audit procedures to confirm the accuracy and completeness of amounts recorded. The possibility of fraud could not be excluded.
- (a) Various receipts could not be provided to audit. The correctness and allocation of these receipts could not be verified. No evidence of the cancelled receipts could be provided to audit.
  - (b) A proper audit-trail for the selected manual receipts from Soutpan could not be found in the accounting records and the correctness, completeness and allocation of these receipts could not be verified.
  - (c) Daily deposits were not reviewed by a senior employee to ensure that all monies received were in fact banked. Due to the lack of an audit trail, I was not able to verify that all money receipted was actually banked. I was also not able to verify that all amounts deposited in the bank were actually receipted and the possibility of fraudulent actions cannot be excluded. A difference of R138 056 was found between the receipts issued and the deposits slips, resulting in the underbanking of money. Direct deposits totalling R174 054 on the bank statements could not be found in the ledger.

- (d) The correctness and allocation of receipts totalling R33 876 378 could not be verified due to a lack of supporting documentation. Furthermore, supporting documentation for journals totalling R82 million could not be submitted to audit.

### **Expenditure**

15. I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence, accuracy and classification of the following expenditure included in the income statement. The records of the municipality also did not permit me to perform reasonable alternative procedures in respect of these transactions.
- (a) Supporting documentation for general expenditure amounting to R9 689 587 included in the income statement could not be submitted to audit.
  - (b) Supporting documentation could not be provided for debit journals totalling R716 099 and credit journals totalling R609 502.
  - (c) The completeness and validity of payments totalling R1 008 002 on lease and rental agreements could not be verified due to a lack of supporting documents and contracts.
  - (d) Applications of consumers registered as indigent on the system were not properly completed and I was therefore not able to verify the correctness of indigent subsidies to consumers totalling R5 631 245 for the year.

### **Employee cost**

16. I was unable to obtain sufficient appropriate audit evidence as to the occurrence, completeness and accuracy of personnel expenditure to the value of R35,1 million (2007: R31,9 million) in some instances. The records of the municipality also did not permit me to perform reasonable alternative procedures.
17. Various shortcomings were identified with regard to the leave administration system of the municipality and I was unable to place any reliance on this system. I was therefore unable to obtain sufficient appropriate audit evidence as to the accuracy of leave pay-outs amounting to R136 414 made to employees whose services had been terminated during the year. The records of the municipality also did not permit me to perform reasonable alternative procedures.
18. Allowances amounting to R524 047 were paid to employees without a formal policy in respect thereof. I was thus unable to consider the occurrence and accuracy of these payments.

### **Debtors**

19. The provision for bad debts as disclosed in note 10 to the financial statements amounting to R117 596 729 (2007: R86,9 million) was insufficient. Based on the payment history of consumer debtors, the provision should be R143 142 113 (2007: R104,4 million). The provision for bad debts and expenditure were therefore understated by R25 545 384 (2007: R17,5 million).
20. A difference of R7 440 340 (2007: R3,2 million) was identified between the ledger and sub-ledger which could not be explained and consumer debtors might be overstated by this amount.
21. Debtors and income were overstated by R1 120 671 at year-end due to incorrect water and electricity levies done before year-end.
22. Supporting documentation for journals totalling R718 140 could not be submitted and the completeness and valuation of debtors amounting to R45 022 317 in note 10 to the financial

statements could not be confirmed. The financial systems of the municipality did not permit me to perform alternative audit procedures to confirm this amount.

23. I was unable to obtain sufficient appropriate audit evidence as to the existence, valuation and the municipalities rights to sundry debtors totalling R2 390 034. The records of the municipality also did not permit me to perform reasonable alternative procedures in respect of these balances.

#### Creditors

24. I was unable to obtain sufficient appropriate audit evidence as to the existence, valuation and the municipalities obligation in respect of creditors, presented in the balance sheet and included in note 12 to the financial statements, to the value of R588 970. This was mainly due to a lack of internal controls to effectively manage creditors, lack of supporting documentation and the fact that proper reconciliations were not done. The municipalities' records and systems did not permit me to perform reasonable alternative procedures in respect of these balances.
25. Supporting documentation for journals totalling R84,6 million could not be submitted and the completeness and valuation of creditors amounting to R45 892 737 in note 12 to the financial statements could not be confirmed. The financial systems of the municipality did not permit me to perform alternative audit procedures to confirm this amount.
26. I was unable to obtain sufficient appropriate audit evidence as to the the correct classification of unknown deposits that are included in creditors as presented in the balance sheet and disclosed in note 12 to the financial statements. The balance increased by R15 138 853 (2007: R18,2 million) during the year under review to R41 747 264 (2007: R26,6 million). As a result of the lack of sufficient appropriate audit evidence in respect of these balances I am not able to consider the effect that the misclassification thereof would have on the elements of the financial statements. The records of the municipality did not permit me to perform reasonable alternative procedures in respect of these balances

#### Value-added tax (VAT)

27. For the reasons as detailed below I was unable to obtain sufficient appropriate audit evidence in respect of the year end VAT receivable of R23 869 043 as included in receivables as presented in the balance sheet and disclosed in note 10 to the financial statements.
- (a) VAT receivable as disclosed in note 10 to the financial statements at year-end was understated by R6 023 142 when compared to the repayments due by the South African Revenue Service (SARS).
- (b) Differences were identified between the monthly returns submitted to SARS and the general ledger of the municipality. The total declared output VAT for the year was R1,5 million more and input VAT claimed was R3,6 million more than that accounted for in the general ledger. The accuracy and completeness of information used to complete the VAT returns could not be confirmed.
- (c) A difference of R29 738 215 (2007: R11,44 million) was identified between the deposits on the bank statements and the income declared on the VAT 201 returns that was submitted to SARS. Management was unable to provide me with sufficient and appropriate audit evidence in respect of these identified differences and thus I was unable to consider the occurrence, accuracy and classification of allocations to the VAT output account.
- (d) The municipality was registered for VAT on the payment basis and input VAT can thus only be claimed when payment is effected by the bank. Outstanding cheques at month-end varied

between R200 000 and R9,6 million resulting in material timing differences when the input VAT will be claimable which could result in penalties and interest being levied by SARS.

28. VAT to the amount of R128 180 has not been declared on the VAT returns submitted during the year. This resulted in VAT output being understated and revenue overstated by this amount.

#### **Funds and reserves**

29. Trust funds to the value of R779 809 were written off during the year, but council approval for this could not be obtained resulting in the understatement of funds and reserves and the accumulated deficit.

#### **Investments**

30. Supporting documentation for journals totalling R616 871 could not be submitted and the completeness and valuation of investments amounting to R1 368 739 in note 7 to the financial statements could not be confirmed. The financial systems did not make provision for alternative audit procedures to confirm this amount.

#### **Long-term liabilities**

31. Capital repayments according to external confirmations amounted to R413 691 for the year under review, however management disclosed total repayments as R1 073 501 in note 18 to the financial statements, resulting in an understatement of the disclosure by R659 810.

#### **Accumulated deficit**

32. I was unable to obtain sufficient appropriate audit evidence as to the occurrence and accuracy of credit journals totalling R13,5 million accounted for against the appropriation account. The municipal records also did not permit me to perform reasonable alternative procedures in respect of these transactions.

#### **Cash flow statement**

33. Differences of R13 698 985 were identified between the movements on debtors, creditors and long term loans as per the balance sheet and the amounts as disclosed in the cash flow statement. Management was unable to provide me explanations or sufficient appropriate audit evidence in respect of the identified differences and the records of the municipality did not permit me to perform reasonable alternative procedures. I was thus unable to perform all the procedures that I deemed necessary to express an opinion as whether fair presentation of the cash flow for the year under review is achieved in the statement.

#### **Capital commitments**

34. I was unable to obtain sufficient appropriate audit evidence as to the existence and accuracy of capital commitments to the value of R13,54 million (2006: R87,1 million) as disclosed in note 25 to the financial statements. The records of the municipality did not permit me to perform reasonable alternative procedures in respect of this disclosure.

### **Fruitless and wasteful expenditure**

35. Fruitless and wasteful expenditure was neither reported to the mayor, MEC for local government and the Auditor-General by the accounting officer, as required by section 32(4) of the MFMA, nor was any disclosure of the following expenses made in the financial statements:
- (a) Deceased and retired employees were paid full monthly salaries after termination of their employment date and had therefore not been removed from the salary system on the date of death or retirement, resulting in fruitless personnel expenditure of R31 040 (2007: R37 050) for the year.
  - (b) Other instances of fruitless expenditure totalling R65 344 were identified during the year under review which was incurred as a result of penalty interest and the excessive price for the purchasing of shirts.

### **Irregular expenditure**

36. Procurement policies and supply chain management regulations were not adhered to in all instances resulting in payments totalling R3,8 million (2007: R9.7 million) where the required number of quotations and / or tenders were not obtained for purchases made. This is regarded as irregular expenditure in terms of the definition of irregular expenditure in section 1 of the MFMA, but was not disclosed as such, as required by section 125(2)(d)(i) of the MFMA.
37. Councillor remuneration exceeded the amounts stated in the *Government Gazette No. 30600 dated 18 December 2007* by a total amount of R130 931 (2007: R763 181 and 2006: R85 500) for the year. No corrective steps have been taken by management to recover any of these overpayments during the last 3 years. Councillor allowances are as a result considered to be overstated by the said amounts.

### **Unauthorised expenditure**

38. According to section 15 of the MFMA the municipality may incur expenditure only in terms of an approved budget and within the limits of the amounts appropriated for the different votes in an approved budget. The total operating budget amounting to R84,8 million was exceeded by R21,6 million as the total expenditure for the year amounted to R106,6 million resulting in unauthorised expenditure.
39. The capital budget was overspent by R11,3 million during the year, as the actual expenditure amounted to R87,6 million, while only R76,3 million had been budgeted.

### **Disclaimer of opinion**

40. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Masilonyana Local Municipality. Accordingly, I do not express an opinion on the financial statements.

### **Emphasis of matter**

I draw attention to the following matter:

#### **Going concern**

41. The Chief financial Officer's report on page 9 to the financial statements indicates that the Masilonyana local municipality might experience challenges over the next twelve months in

relation to meet some of its obligations. These conditions, along with other matters, point to existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern.

## OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

### Internal controls

42. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Cash and bank			X		X
Fixed assets	X	X	X		
Income	X		X	X	X
Expenditure	X		X		X
Employee cost	X	X	X	X	X
Debtors		X	X		
Creditors			X		X
Value-added tax	X	X	X		X
Funds and reserves			X		
Investments			X		
Long-term liabilities		X	X		
Accumulated deficit			X		
Cash flow statement			X		
Capital commitments			X		
Fruitless and wasteful expenditure	X			X	X
Irregular expenditure	X		X		
Unauthorised expenditure	X				
<p><u>Control environment</u>: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.</p> <p><u>Risk assessment</u>: involves the identification and analysis by management of relevant financial reporting risks to</p>					



Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
<p>achieve predetermined financial reporting objectives.</p> <p><u>Control activities</u>: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.</p> <p><u>Information and communication</u>: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.</p> <p><u>Monitoring</u>: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.</p>					

### Non-compliance with applicable legislation

#### Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

43. The municipality did not comply with various sections of the MFMA. No disclosure of such non-compliance was made in the financial statements as required by section 125(2)(e).
44. Section 131(1) of the MFMA requires that action must be taken on the Auditor-General's report. The municipality did not comply with this section as very little was done regarding the prior year's findings.
45. No evidence could be provided that a fraud prevention plan existed and that a risk assessment had been performed, as required by section 62(1) of the MFMA.
46. Section 21(1b) requires that the mayor should, at least 10 months before the start of the budget year, table in the municipal council a time schedule for the budget outlining key deadlines. Proof thereof could not be submitted to audit.
47. No proof could be obtained that the approved budget had been submitted to the National Treasury as required by section 24(3).
48. The monthly reports were not submitted timeously to the National Treasury as required by section 71.

#### Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

49. The human resource capacity was not developed to a level which enabled it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way, as required by section 68.
50. The municipality's credit control and debt collection policies were not implemented and these policies were not monitored, as required by sections 99 and 100.
51. Declarations of interest, as required by schedule 1 to the MSA, could not be obtained for councillors (paragraph 5 of the code of conduct for councillors) or managers (paragraph 5 of the code of conduct for municipal staff members) for the year under review.

#### Division of Revenue Act, 2007 (Act No.1 of 2007) (DoRA)

52. No evidence could be obtained that the municipality had submitted the annual performance management report, as envisaged in DoRA, to the National Treasury, the national accounting officer responsible for local government and the provincial department responsible for local government.

## Matters of governance

52. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
<b>Audit committee</b>		
• The municipality had an audit committee in operation throughout the financial year.		X
• The audit committee operates in accordance with approved, written terms of reference.		X
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X
<b>Internal audit</b>		
• The municipality had an internal audit function in operation throughout the financial year.		X
• The internal audit function operates in terms of an approved internal audit plan.		X
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
<b>Other matters of governance</b>		
• The annual financial statements were submitted for audit as per the legislated deadlines (section 126 of the MFMA).	X	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report		X
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	X	
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
• The prior year's external audit recommendations have been substantially implemented.		X
• Provincial SCOPA resolutions have been substantially implemented.		X
• There are documented policies and procedures and control systems to ensure the reliability of financial reporting.		X
• There are documented policies and procedures and control systems to ensure compliance with applicable laws and regulations.		X
• The information systems were appropriate to facilitate the preparation of financial statements that are free from material misstatement.		X
• Delegations of responsibilities are in place.	X	
• Supply chain management policies and procedures were appropriately applied.		X
• There is a functioning performance management system.		X
• Based on the available information, performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

Matter of governance	Yes	No
<b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>		
<ul style="list-style-type: none"> <li>The municipality submitted an implementation plan, detailing progress toward full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.</li> </ul>	X	
<ul style="list-style-type: none"> <li>The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP</li> </ul>		X
<ul style="list-style-type: none"> <li>The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.</li> </ul>		X

#### Unaudited supplementary schedules

54. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

#### OTHER REPORTING RESPONSIBILITIES

##### Reporting on performance information

I was engaged to audit the performance information.

##### Responsibility of the accounting officer

55. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of MSA.

##### Responsibility of the Auditor-General

56. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007* and section 45 of the MSA.

57. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

58. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

##### Audit findings

##### Non-compliance with regulatory requirements

##### No reporting of performance information

59. The Masilonyana municipality did not submit an annual report which includes the annual performance report of the municipality prepared by the municipality in terms of section 46 of the MSA, as required by section 121(3) of the MFMA.

### Content of integrated development plan

60. The integrated development plan of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by section 26(i) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)
61. The integrated development plan did not reflect a financial plan, which must also include a budget projection for at least the next three years as required by section 26(h) of the MSA.
62. No proof could be provided that the municipality had given the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to the council for adoption as required by regulation 15(3) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.
63. No proof could be provided that the municipality had afforded the local community at least 21 days to comment on the final draft of its integrated development plan before the plan is submitted to the council for adoption as required by section 25(4) of the MSA.
64. No proof could be provided that the municipal council had reviewed its integrated development plan annually in accordance with an assessment of its performance measurements as required by section 34 of the MSA.

### Reporting on performance information

65. No evidence could be provided that the municipality had a performance management system framework including all detail as required by regulation 7.
66. The municipality did not set measurable performance targets with regard to each of its development priority and objective as required by section 41(1)(b) of the MSA.
67. The municipality did not developed a service delivery and budget implementation plan with the relevant service delivery targets and performance indicators for each quarter as required by MFMA circular 13.
68. The municipality did not establish a process of regular reporting to the council, other political structures, political office-bearers and staff of the municipality as is required by section 41(1) of the MSA.
69. The accounting officer of a municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72(1) of the MFMA.

### APPRECIATION

70. The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.

*Auditor-General*  
Bloemfontein

30 November 2008



A U D I T O R - G E N E R A L